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Rethinking Cash Flow

While there are many uncertainties when planning for the future, one factor that is almost always essential to the success of your future plans is cash flow. Measuring your company's cash flow and knowing what aspects of your business can be affected by the health of your cash flow are even more crucial in today's economy. Having an accurate representation of your cash flow can also make or break your plans for the future, including any ideas you might have about backing away, transitioning ownership, delegating management responsibility, or an outright sale of your business. Since you can't escape the impact of cash flow, you might as well take it head on, right?

What is Cash Flow

While there are many ways to think about cash flow, the concept that might work for business planning purposes is free cash flow. Free cash flow is the portion of the annual net cash flow from operating activities that remains available for discretionary purposes after the business has met its basic financial obligations. In this discussion, the "discretionary purpose" could be any anticipated use of cash flow to support the business or personal goals

and objectives of the owners of a closely-held business. So, free cash flow might be supporting new initiatives, return on investment for current or new owners, cash-based incentive compensation plans, or the buy-out of one or more owners. In other words, cash flow can be described as the engine that powers your plans for the future.

Importance of Cash Flow

Cash flow is so essential because it impacts just about every aspect of your current and future business operations and planning. Cash flow can affect the value of your business, the magnitude of risk associated with the business, and the business' ability to manage debt or fund growth.

As much as we don't want to admit it, cash flow is the lifeblood of a company. Owners must understand — and be able to measure — where cash comes from and where it goes. It is an accurate indicator of the financial health of your business. Unlike more subjective measures, it makes no assumptions and entertains no preconceptions.

3 Ways to Reboot Your Cash Flow Strategy

1. **Assess Billing and Collections Practices** – It may be time to do a complete review and overhaul of your customer relationships, invoicing practices, collections policies, discount policies, and credit policies for your customers. You may find that your cash flow pipeline has many small leaks that, once plugged, can impact the stability and predictability of your cash flow.
2. **Rethink Spending and Financing** – Right now businesses are revisiting business priorities and expenses in ways that they did not anticipate as recently as last year. Changing from owning to leasing equipment and facilities, renegotiating pricing or terms with suppliers, and taking advantage of widespread changes in the way businesses operate and interact can lead to big savings. You may have leverage or bargaining power that you haven't had in the past.
3. **Put It in Writing** – Ultimately, we are talking about free cash flow because good business planning requires a constant eye toward the future and what

you want it to look like. Thinking through your priorities for the future, and how they may have changed, can allow you to rebalance your use of free cash flow to best suit your goals as they stand today. Business planning shouldn't be a static process in which you set your course and then just assume you'll arrive at your destination. Frequent course corrections are often necessary to finally reach your targets. A short, written, prioritized list of your priorities and how you'll use your current and future cash flow to support them, is a tangible way to visualize your plans for the future.

Keeping Your Eye on the Ball

You may be putting out fires and managing unexpected crises more frequently now than in the past. But you also know how important it is to look to the future and make decisions that you believe will help achieve your long-term goals. It's possible to do both.

Please contact Dan O'Brien for a free one hour consultation on your exit planning needs

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